

Presentation for

House Tax Policy Committee



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February 16, 2005

Economic/Revenue Highlights

U.S. Economy

National nonfarm employment increased by 146,000 in January and 133,000 jobs in December. January job gains occurred in the service-producing sectors, but declined in the goods-producing by 31,000 jobs. Job growth needs to average 130,000 per month to keep pace with typical labor market increases.

According to the Institute of Supply Management, business activity in the manufacturing (20th consecutive month) sector and in the non-manufacturing (22nd consecutive month) sector increased in January, but at a slower rate than in December.

The leading index increased in both November and December, following five consecutive declines. According to the Conference Board, the "five month decline in the leading index was only a pause in the rising trend that has been underway since March 2003."

As reported by the *Detroit News*, the 2004 market share of the big three auto manufacturers – General Motors, Ford, and DaimlerChrysler -- declined to an all-time low of 58.7%.

Michigan Economy

Michigan nonfarm employment decreased by 16,000 jobs in December. In December, job losses were posted in construction, information, professional and business services, education and health services, and government.

In December, Michigan's unemployment rate was 7.3%; while the national unemployment rate was 5.4%. Compared with other states, Michigan and Alaska had the highest unemployment rates in December.

Michigan motor vehicle production decreased 3.9% in CY 2003 and declined 6.7% in CY 2004.

The January University of Michigan forecast estimates State non-farm employment to increase 0.7% in CY 2005 and 1.7% in CY 2006, which is above the January consensus estimated increase of 0.3% for CY 2005 and 1.0% for CY 2006.

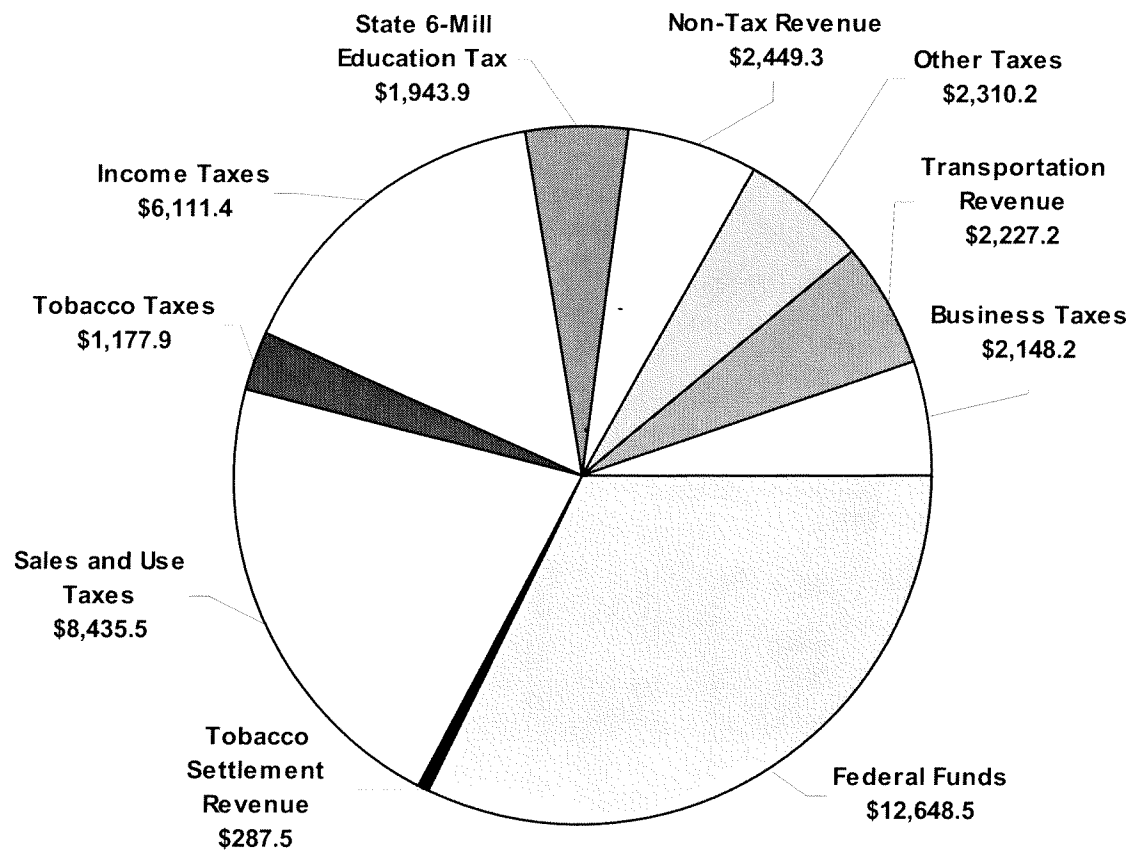
According to State Policy Reports, Michigan ranked last in economic momentum. The index of state economic momentum includes population growth, personal income growth and employment growth.

State Revenue

Based on 1st quarter data, State revenue for FY 2004-05 is above the January consensus by \$50 million – GF/GP revenue up \$24 million and SAF revenue up \$26 million.

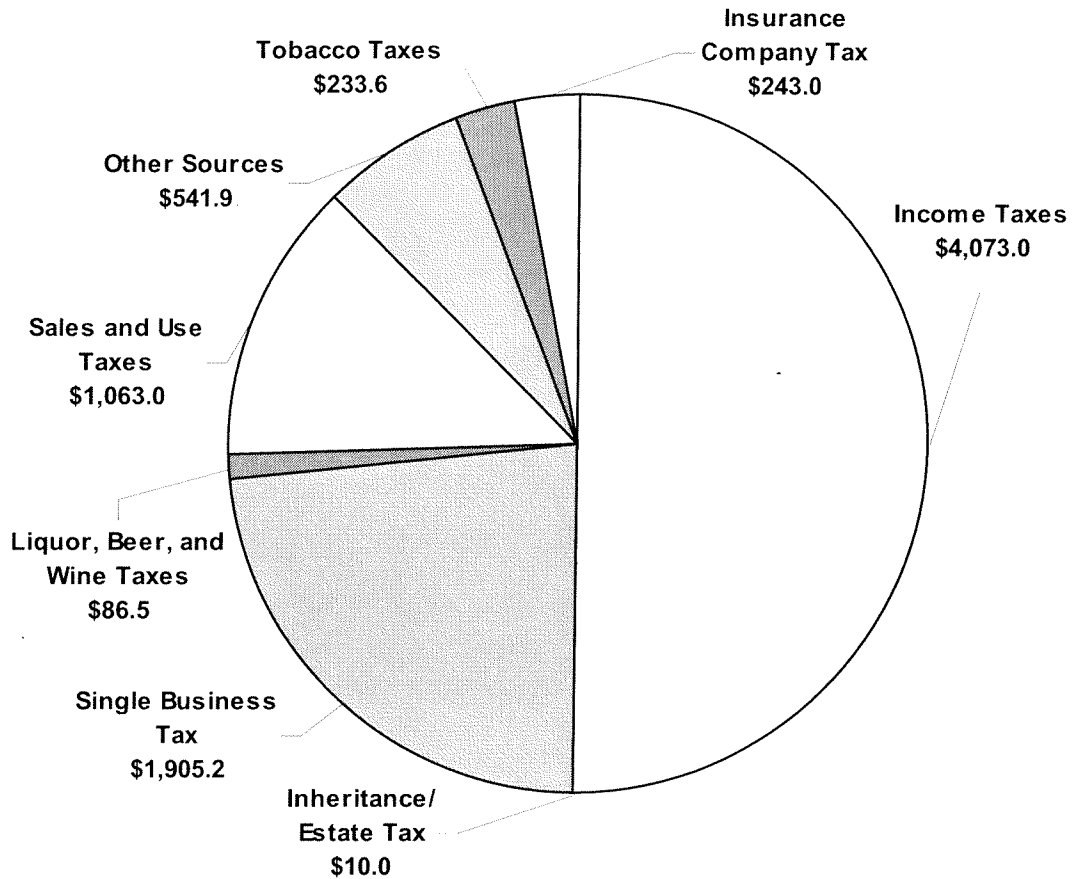
According to the Rockefeller Institute, state tax revenue (personal income, corporate income, and sales tax) in the July-September 2004 quarter grew 8.6% (and 8.2% baseline) compared with the year-ago period. Eleven states, including Michigan, had growth less than 5%.

State of Michigan
FY 2005-06 Total Revenue by Source
(Millions of Dollars)



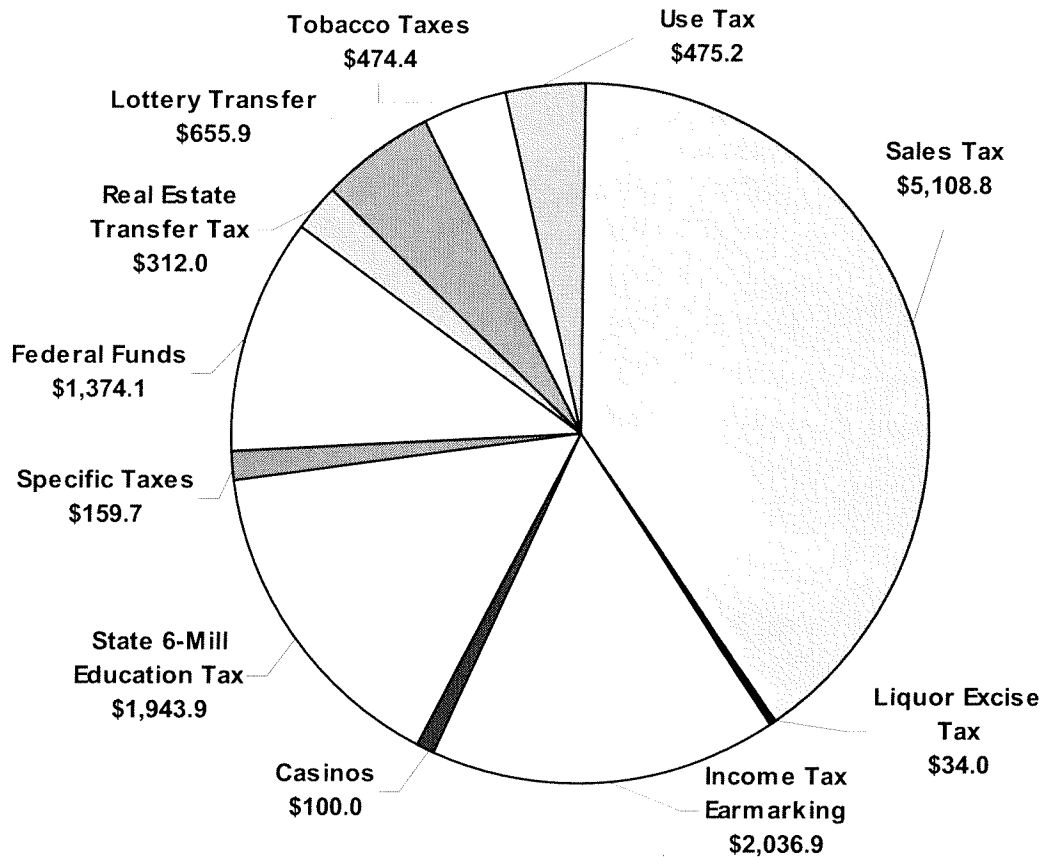
	<u>FY 2004-05</u>	<u>% of Total</u>	<u>FY 2005-06</u>	<u>% of Total</u>
Federal Funds	\$12,398.5	32.3%	\$12,648.5	31.8%
Sales & Use Taxes	\$8,077.1	21.0%	\$8,435.5	21.2%
Income Taxes	\$5,877.3	15.3%	\$6,111.4	15.4%
Business Taxes	\$2,095.0	5.5%	\$2,148.2	5.4%
Other Taxes	\$1,832.1	4.8%	\$2,310.2	5.8%
Non-Tax Revenue	\$2,634.1	6.9%	\$2,449.3	6.2%
Transportation Revenue	\$2,159.1	5.6%	\$2,227.2	5.6%
State 6-mill Education Tax	\$1,846.0	4.8%	\$1,943.9	4.9%
Tobacco Taxes	\$1,189.2	3.1%	\$1,177.9	3.0%
Tobacco Settlement Revenue	<u>\$287.7</u>	<u>0.7%</u>	<u>\$287.5</u>	<u>0.7%</u>
Total	\$38,396.1	100.00%	\$39,739.6	100.0%

State of Michigan
FY 2005-06 General Fund/General Purpose Revenue by Source
(Millions of Dollars)



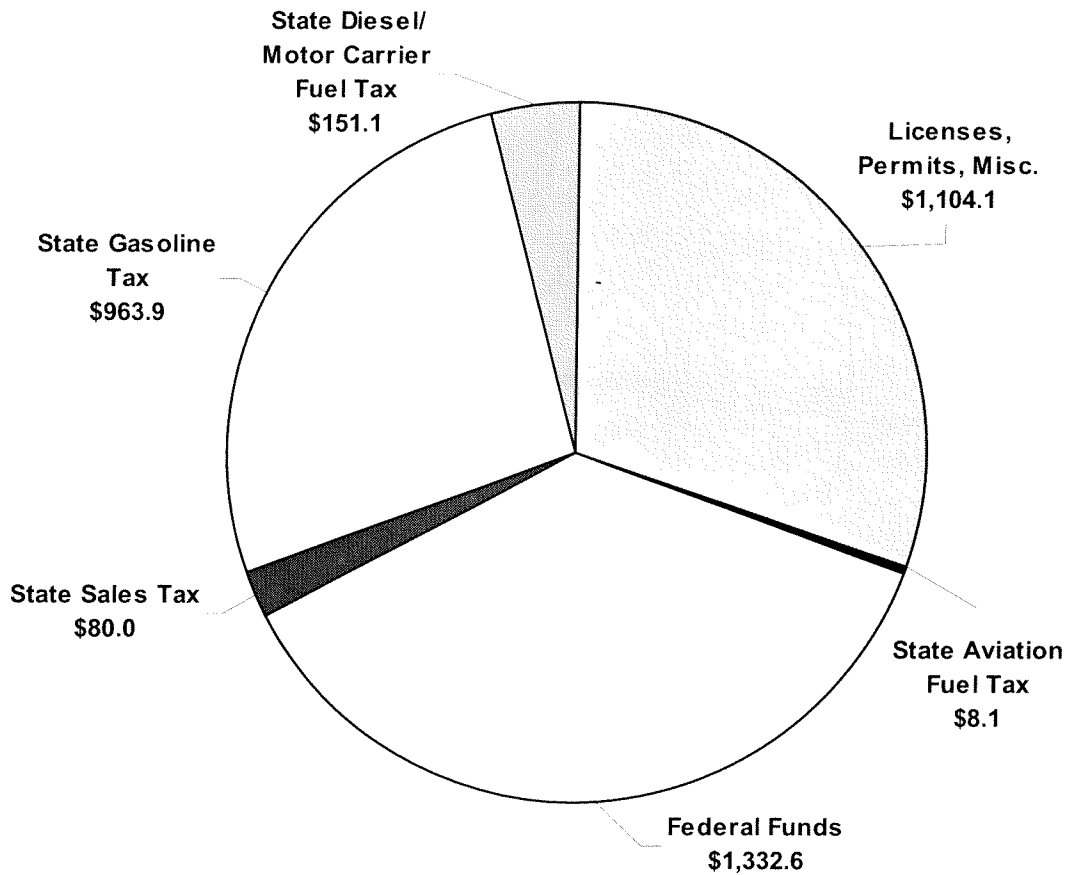
	<u>FY 2004-05</u>	<u>% of Total</u>	<u>FY 2005-06</u>	<u>% of Total</u>
Other Sources	\$578.7	7.4%	\$541.9	6.6%
Inheritance/Estate Tax	\$39.0	0.5%	\$10.0	0.1%
Sales/Use Taxes	\$1,030.0	13.1%	\$1,063.0	13.0%
Liquor/Beer/Wine Taxes	\$85.5	1.1%	\$86.5	1.1%
Single Business Tax	\$1,855.7	23.6%	\$1,905.2	23.4%
Tobacco Taxes	\$122.8	1.6%	\$233.6	2.9%
Insurance Company Tax	\$239.3	3.0%	\$243.0	3.0%
Income Tax	<u>\$3,918.9</u>	<u>49.8%</u>	<u>\$4,073.0</u>	<u>49.9%</u>
Total	\$7,869.9	100.0%	\$8,156.2	100.0%

State of Michigan
FY 2005-06 School Aid Fund Revenue by Source
(Millions of Dollars)



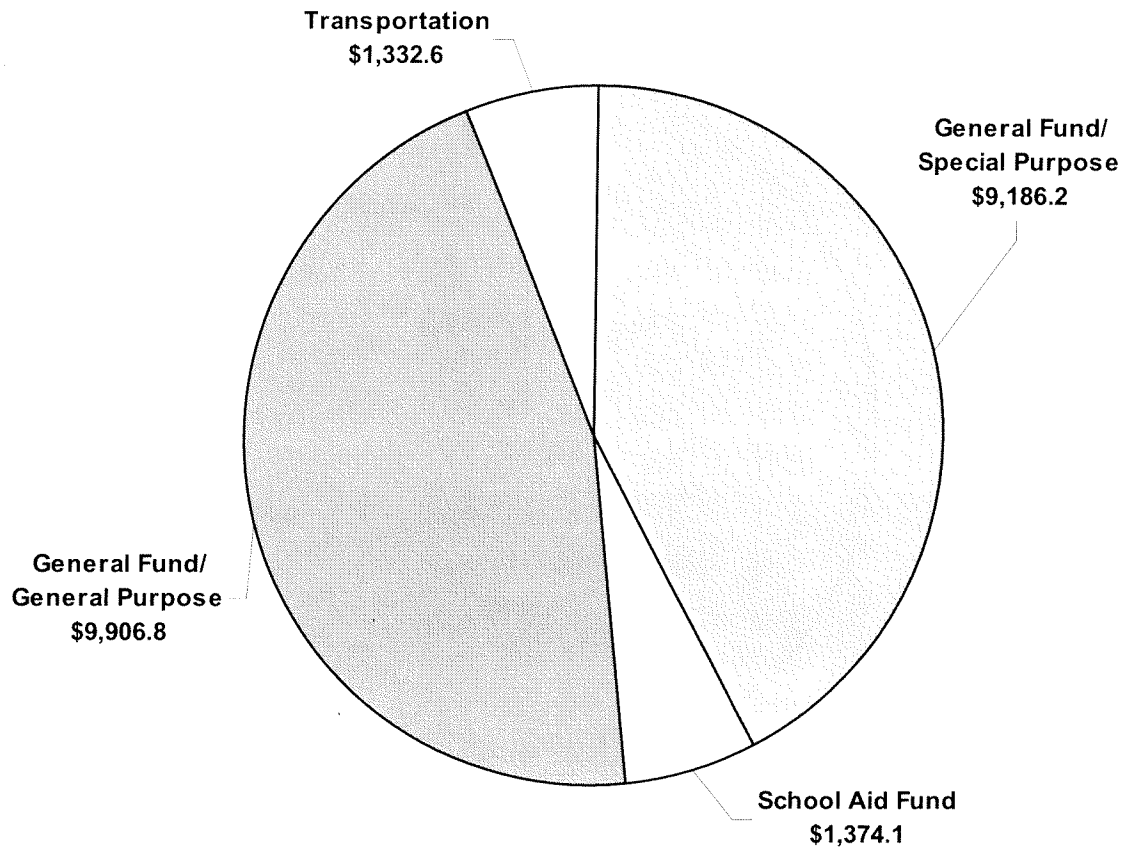
	<u>FY 2004-05</u>	<u>% of Total</u>	<u>FY 2005-06</u>	<u>% of Total</u>
Sales Tax	\$4,887.8	40.0%	\$5,108.8	40.3%
State 6-mill Education Tax	\$1,846.0	15.1%	\$1,943.9	15.3%
Income Tax Earmarking	\$1,956.9	16.0%	\$2,036.9	16.1%
Real Estate Transfer Tax	\$310.0	2.5%	\$312.0	2.5%
Lottery Transfer	\$649.9	5.3%	\$655.9	5.2%
Casinos	\$98.0	0.8%	\$100.0	0.8%
Tobacco Taxes	\$479.9	3.9%	\$474.4	3.7%
Liquor Excise Tax	\$33.5	0.3%	\$34.0	0.3%
Use Tax	\$456.5	3.7%	\$475.2	3.7%
Specific Taxes	\$160.2	1.3%	\$159.7	1.3%
Federal Funds	<u>\$1,353.5</u>	<u>11.1%</u>	<u>\$1,374.1</u>	<u>10.8%</u>
Total	\$12,232.2	100.0%	\$12,674.9	100.0%

State of Michigan
FY 2005-06 Transportation Revenue by Source
(Millions of Dollars)



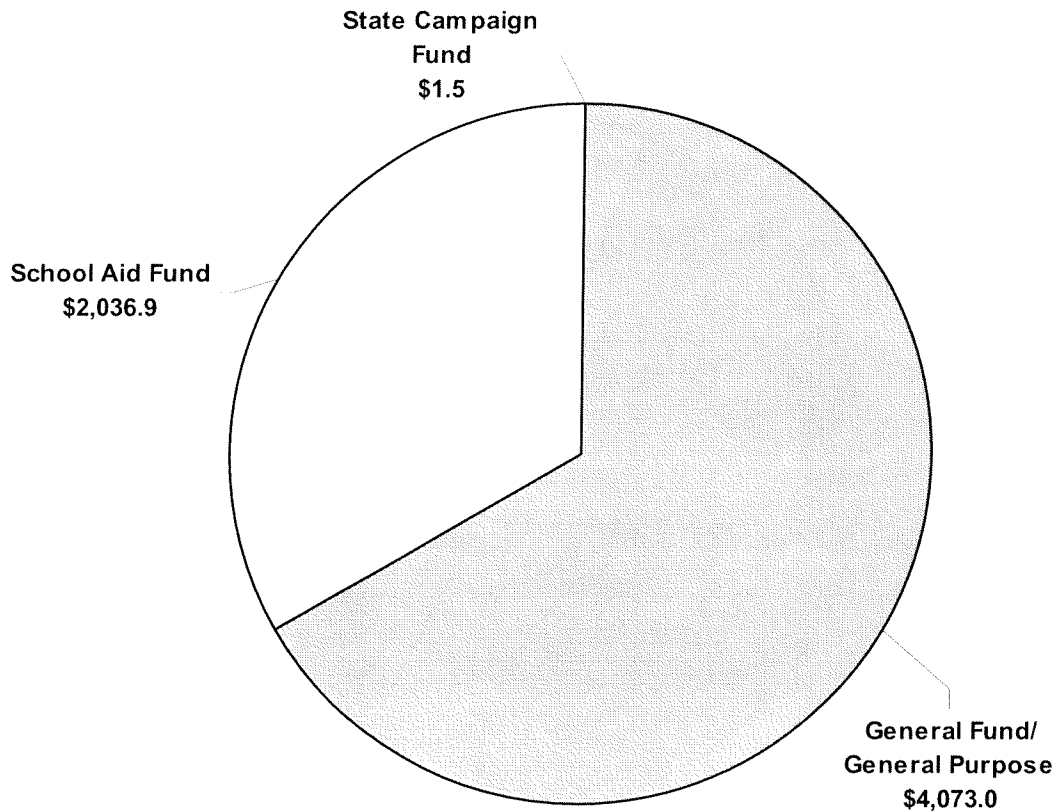
	<u>FY 2004-05</u>	<u>% of Total</u>	<u>FY 2005-06</u>	<u>% of Total</u>
State Gasoline Tax	\$945.9	26.9%	\$963.9	26.5%
Licenses, Permits, Misc.	\$1,060.2	30.1%	\$1,104.1	30.3%
Federal Funds	\$1,292.7	36.7%	\$1,332.6	36.6%
State Diesel/MotorCarrier Fuel Tax	\$145.0	4.1%	\$151.1	4.2%
State Sales Tax	\$66.9	1.9%	\$80.0	2.2%
State Aviation Fuel Tax	<u>\$8.0</u>	<u>0.2%</u>	<u>\$8.1</u>	<u>0.2%</u>
Total	\$3,518.7	100.0%	\$3,639.8	100.0%

State of Michigan
FY 2005-06 Federal Funds Distribution
(Millions of Dollars)



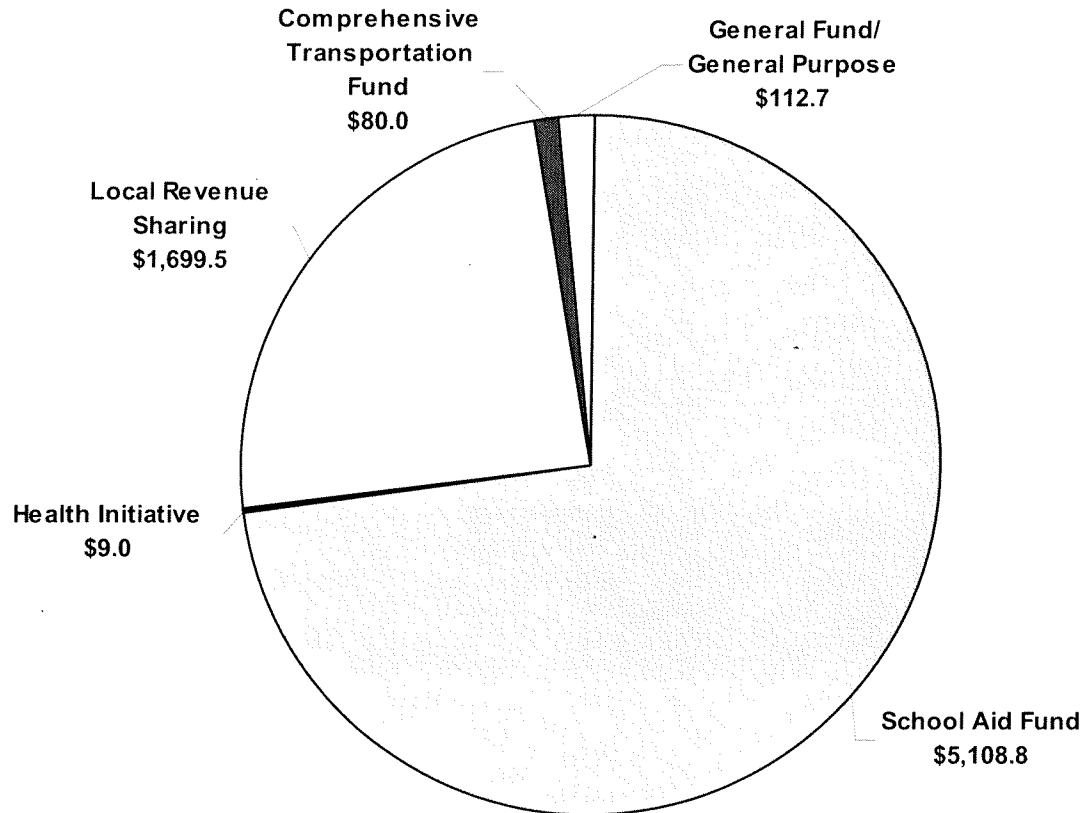
	<u>FY 2004-05</u>	<u>% of Total</u>	<u>FY 2005-06</u>	<u>% of Total</u>
General Fund/General Purpose	\$35.0	0.3%	\$35.0	0.3%
School Aid Fund	\$1,353.5	10.9%	\$1,374.1	10.9%
General Fund/Special Purpose	\$9,717.3	78.4%	\$9,906.8	78.3%
Transportation	\$1,292.7	10.4%	\$1,332.6	10.5%
Total	\$12,398.5	100.0%	\$12,648.5	100.0%

State of Michigan
FY 2005-06 Net (After Refunds) Income Tax Distribution
(Millions of Dollars)



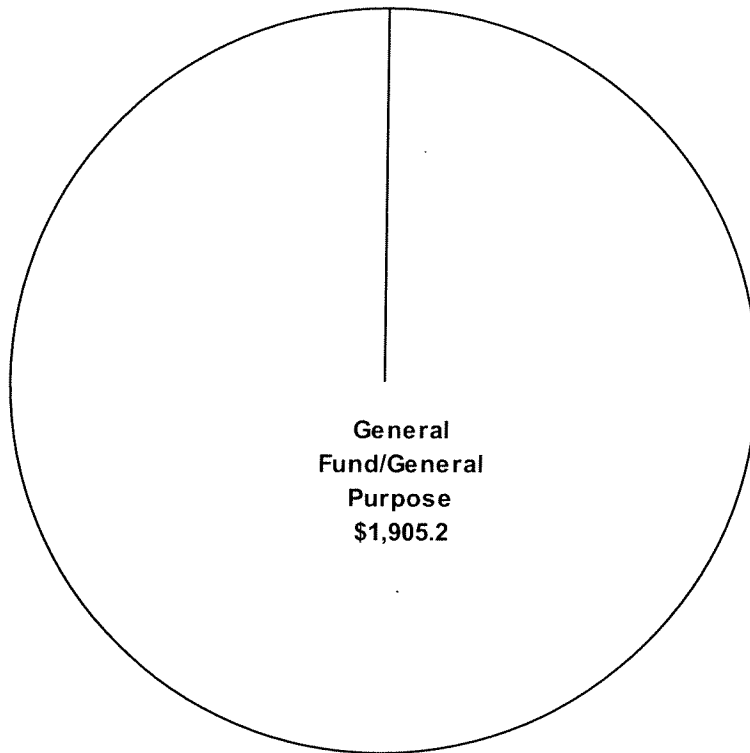
	<u>FY 2004-05</u>	<u>% of Total</u>	<u>FY 2005-06</u>	<u>% of Total</u>
General Fund/General Purpose	\$3,918.9	66.7%	\$4,073.0	66.6%
State Campaign Fund	\$1.5	0.0%	\$1.5	0.0%
School Aid Fund	<u>\$1,956.9</u>	<u>33.3%</u>	<u>\$2,036.9</u>	<u>33.3%</u>
Total	\$5,877.3	100.0%	\$6,111.4	100.0%

State of Michigan
FY 2005-06 Sales Tax Distribution
(Millions of Dollars)



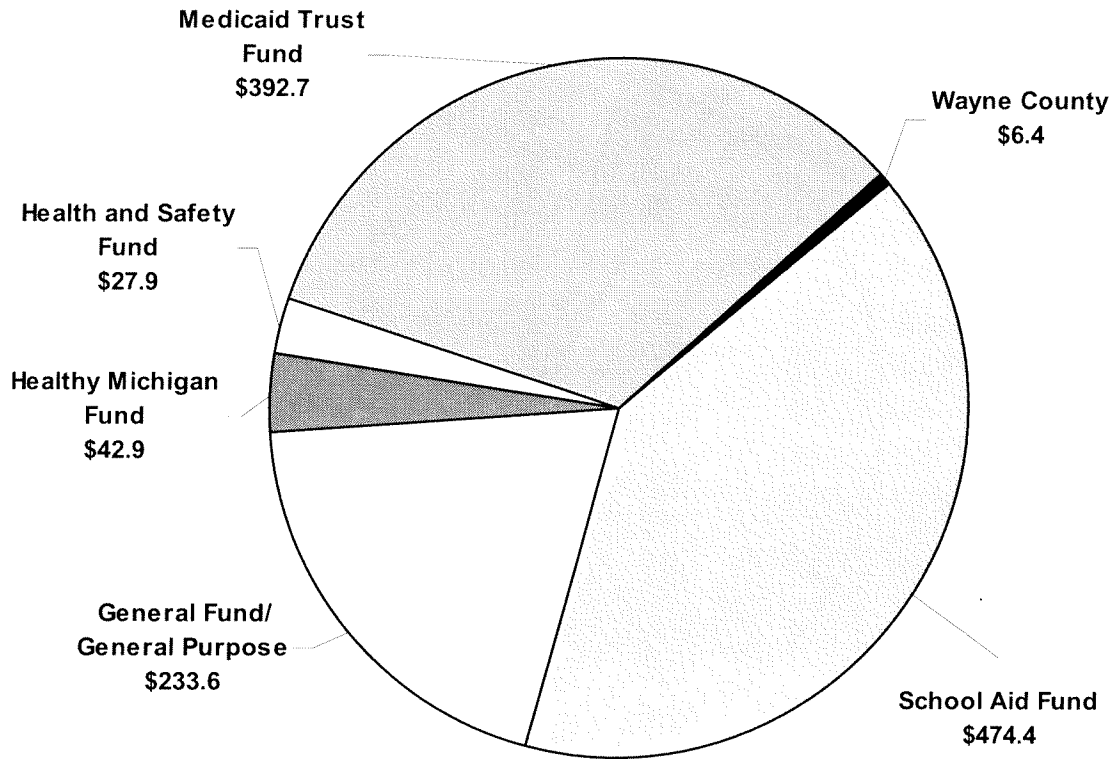
	<u>FY 2004-05</u>	<u>% of Total</u>	<u>FY 2005-06</u>	<u>% of Total</u>
General Fund/General Purpose	\$117.2	1.7%	\$112.7	1.6%
Health Initiative	\$9.0	0.1%	\$9.0	0.1%
Local Revenue Sharing	\$1,626.9	24.3%	\$1,699.5	24.2%
Comprehensive Transportation Fund	\$66.9	1.0%	\$80.0	1.1%
School Aid Fund	<u>\$4,887.8</u>	<u>72.9%</u>	<u>\$5,108.8</u>	<u>72.9%</u>
Total	\$6,707.8	100.0%	\$7,010.0	100.0%

State of Michigan
FY 2005-06 Single Business Tax Distribution
(Millions of Dollars)



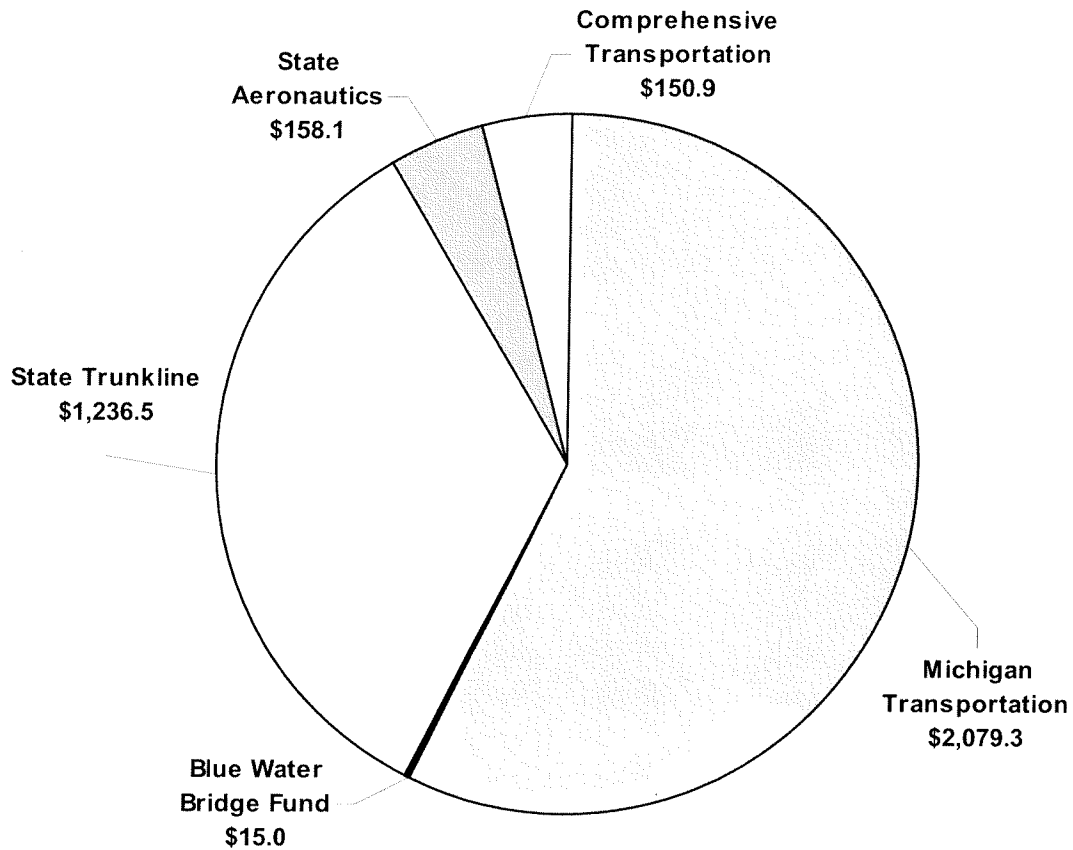
	<u>FY 2004-05</u>	<u>% of Total</u>	<u>FY 2005-06</u>	<u>% of Total</u>
General Fund/General Purpose	\$1,855.7	100.0%	\$1,905.2	100.0%

State of Michigan
FY 2005-06 Tobacco Tax Distribution
(Millions of Dollars)



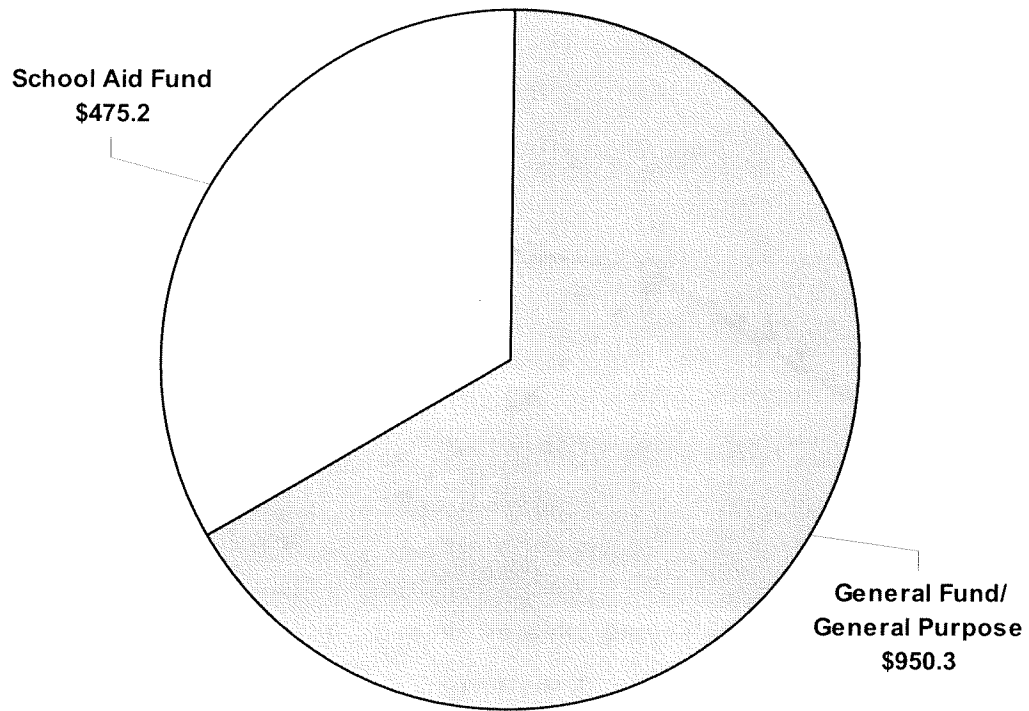
	<u>FY 2004-05</u>	<u>% of Total</u>	<u>FY 2005-06</u>	<u>% of Total</u>
Wayne County	\$6.4	0.5%	\$6.4	0.5%
Medicaid Trust Fund	\$508.6	42.8%	\$392.7	33.3%
Health and Safety Fund	\$28.2	2.4%	\$27.9	2.4%
Healthy Michigan Fund	\$43.3	3.6%	\$42.9	3.6%
School Aid Fund	\$479.9	40.4%	\$474.4	40.3%
General Fund/General Purpose	<u>\$122.8</u>	<u>10.3%</u>	<u>\$233.6</u>	<u>19.8%</u>
Total	\$1,189.2	100.0%	\$1,177.9	100.0%

**State of Michigan
FY 2005-06 Transportation Tax Distribution
(Millions of Dollars)**



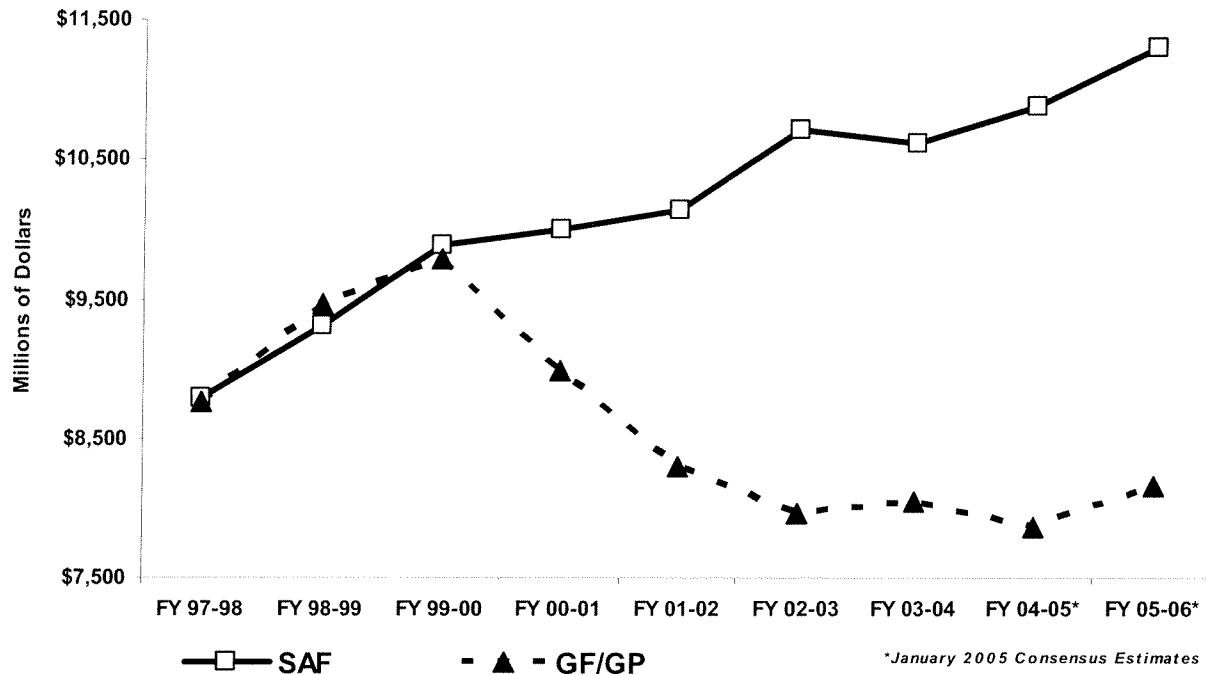
	<u>FY 2004-05</u>	<u>%of Total</u>	<u>FY 2005-06</u>	<u>%of Total</u>
State Aeronautics	\$198.4	5.6%	\$158.1	4.3%
Michigan Transportation	\$2,017.0	57.3%	\$2,079.3	57.1%
State Trunkline	\$1,160.1	33.0%	\$1,236.5	34.0%
Comprehensive Transportation	\$128.6	3.7%	\$150.9	4.1%
Bluewater Bridge Fund	<u>\$14.6</u>	<u>0.4%</u>	<u>\$15.0</u>	<u>0.4%</u>
Total	\$3,518.7	100.0%	\$3,639.8	100.0%

State of Michigan
FY 2005-06 Use Tax Distribution
(Millions of Dollars)



	<u>FY 2004-05</u>	<u>%of Total</u>	<u>FY 2005-06</u>	<u>%of Total</u>
General Fund/General Purpose	\$912.8	66.7%	\$950.3	66.7%
School Aid Fund	<u>\$456.5</u>	<u>33.3%</u>	<u>\$475.2</u>	<u>33.3%</u>
Total	\$1,369.3	100.0%	\$1,425.5	100.0%

State of Michigan
School Aid Fund and General Fund/General Purpose Revenue
FY 1997-98 through FY 2005-06
(Millions of Dollars)



	<u>SAF</u>	<u>GF/GP</u>
FY 97-98	\$8,796.5	\$8,763.6
FY 98-99	\$9,309.9	\$9,462.7
FY 99-00	\$9,889.3	\$9,787.8
FY 00-01	\$9,994.1	\$8,989.5
FY 01-02	\$10,134.0	\$8,306.0
FY 02-03	\$10,714.7	\$7,958.0
FY 03-04	\$10,615.1	\$8,042.0
FY 04-05*	\$10,878.8	\$7,869.8
FY 05-06*	\$11,300.9	\$8,156.2

Governor's Proposal: Suggested Tax Expenditures to be Eliminated

Total Estimated Impact **\$109.9 million**
General Fund/General Purpose (GF/GP) \$62.1 million
School Aid Fund (SAF) \$47.8 million

- 1. Marginal Wells**..... **Fiscal Impact: + \$2.2 million**
Natural gas producers pay a 5.0% severance tax rate on the gross cash value of their production, while oil producers pay a 6.6% tax rate. Marginal wells that produce lesser amounts (typically about 35 or fewer barrels of oil per day) are taxed at a reduced rate of 4.0%. Eliminating the preferential tax treatment would increase GF/GP revenues by about \$2.2 million.
- 2. Oil and Gas Royalty Income**..... **Fiscal Impact: + \$5.0 million**
Oil and gas production are subject to a severance tax. As such, royalty income, which is taxable at the federal level, is subtracted from federal adjusted gross income (AGI) on the MI-1040, Schedule 1. However, court rulings have permitted additional subtractions for certain indirect costs (such as depreciation) from the federal AGI, in essence providing for a double exclusion. Eliminating the explicit subtraction on Schedule 1 would eliminate this double exemption and increase income tax revenue by an estimated \$5.0 million. Of this, \$1.0 million would accrue to the SAF; the remaining \$4.0 million would go to GF/GP.
- 3. Water Softeners and Water Coolers**..... **Fiscal Impact: + \$0.5 million**
Currently, water coolers and water softeners that are leased are exempt from the personal property tax. Eliminating this exemption would subject this property to the 6-mill State Education Tax (SET) as well as the 18-mill non-homestead millage. The 6-mill SET would directly increase the SAF; the 18-mill non-homestead millage would be dedicated to pupil funding at the local level.
- 4. Railroad Property Credit**..... **Fiscal Impact: + \$20.0 million**
Railroad companies that maintain or improve railroad cars and/or rights-of-way are eligible for a credit against the state utility property tax. Eliminating these credits would increase GF/GP revenues by an estimated \$20.0 million.
- 5. Purchases Made By Department of Corrections Inmates**
..... **Fiscal Impact: + \$0.6 million**
Under current law, purchases made by inmates at prison stores are exempt from sales taxes. Eliminating this exemption would increase sales tax revenue by an estimated \$0.6 million. GF/GP revenues would increase by about \$0.2 million; the SAF would increase by about \$0.4 million.
- 6. Copyrighted Motion Pictures** **Fiscal Impact: + \$20.0 million**
Copyrighted motion pictures that are purchased or leased for public viewing by either theaters or individuals are exempt from sales and use taxes. Taxing this activity would increase sales tax revenue by about \$6.8 million and use tax revenue by about \$13.2 million. Because approximately 72% of sales tax revenue and one-third of use tax revenue is

constitutionally dedicated to the SAF, SAF revenues would increase by an estimated \$9.3 million—the remaining \$10.7 million would go to GF/GP.

- 7. Food Sold Through Vending Machines Fiscal Impact: + \$25.2 million**
Most food sold for immediate consumption is subject to sales taxes. Hot or cold foods dispensed from vending machines are also subject to the sales tax—except for some foods sold through vending machines (non-alcoholic beverages, milk, and food products at or near room temperature), which are specifically exempt. Eliminating this exemption to put vended foods on a par with other foods sold for immediate consumption would increase sales tax revenue by an estimated \$25.2 million; the majority (about \$18.5 million) would go to the SAF and the remaining \$6.7 million would accrue to GF/GP.
- 8. Purchases of Interstate Trucks and Trailers Fiscal Impact: + \$16.4 million**
Purchases of trucks, trailers, and parts by interstate motor companies are exempt from sales taxes as long as at least 10% of the company's total mileage driven occurs outside of Michigan. Eliminating this condition would mean subjecting a percentage of these purchases to the same percentage as the number of miles driven in Michigan relative to total miles. That is, if 30% of the carrier's total miles are in Michigan, 30% of its previously exempt purchases would be taxable. This would increase sales tax revenue by an estimated \$16.4 million—\$10.8 million of which would accrue to the SAF and \$5.6 to the GF/GP.
- 9. International and Certain Interstate Telecommunications Fiscal Impact: + \$22.0 million**
International and certain interstate telecommunications (e.g., toll free calls, WATTS lines, etc.) are currently exempt from the use tax. Making such telecommunications subject to the use tax would increase revenues by about \$22.0 million, with one-third (\$7.3 million) going to the SAF and \$12.7 million to GF/GP.

For more detail, see:

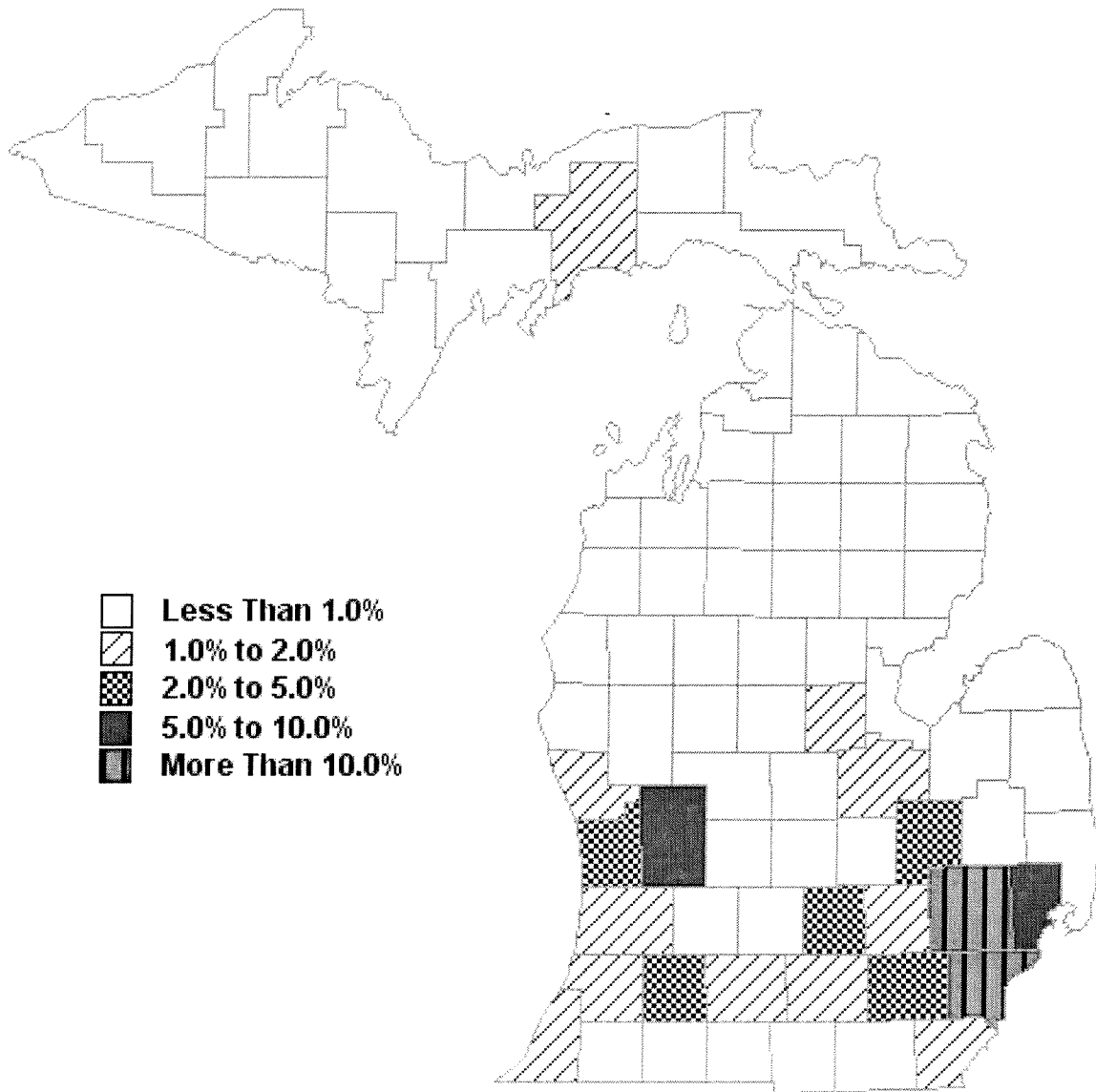
http://www.michigan.gov/documents/ExecBudgetReportonTaxCreditsDeductionsandExemptionsFY2005_103211_7.pdf

Department of Treasury's *Executive Budget Appendix on Tax Credits, Deductions, and Exemptions: Fiscal Year 2005*

■ Less Than 3.5%
 ▨ 3.5% to 7.0%
 ▩ 7.0% to 10.0%
 ■ More Than 10.0%

Personal Property By County

As a Percent of Total Statewide Personal Property



Governor's Proposed SBT Plan: The Michigan Jobs and Investment Act

According to the Department of Treasury, the fiscal impact of the Michigan Jobs and Investment Act is revenue neutral. The estimated fiscal impact of the components listed below are linked to the fiscal impact of other components in the package; therefore the fiscal impact of one change should be view as an accurate estimate only if the other changes are also adopted. Some of the figures below are from the *Executive Budget Appendix on Tax Credits, Deductions, and Exemptions FY 2005*.

Rate Changes

1. **Rate Cut** **Fiscal Impact: -\$739 million**
Reduces the SBT rate from 1.9% to 1.2%
2. **Rate Cut** **Fiscal Impact: included in fiscal for #1**
Reduces the alternative tax rate for small businesses from 2.0% to 1.2%. The alternative tax rate, which is used by small, low-profit firms, is based on adjusted business income or profits.
3. **Insurance Tax Increase** **Fiscal Impact: + \$255 million**
Increases the tax on insurance companies from the current 1.0735% of adjusted receipts (primarily premiums) to 2.0%. This change would not apply to Blue Cross/Blue Shield, HMOs or self-insurance plans. Foreign companies are subject to the retaliatory tax, which requires them to pay the same tax that a Michigan-based insurance company would have to pay in the company's home state. Foreign insurers pay the SBT or the retaliatory tax, whichever is greater.

New Credits

4. **Create Manufacturing and R&D Personal Property Tax Credit**
..... **Fiscal Impact: -\$272 million**
New credit for manufacturing and R&D companies would be equal to 35% of personal property taxes only on property used directly in the manufacturing or R&D process. This credit would be refundable.
5. **Create an R&D Credit** **Fiscal Impact: -\$15 million**
New credit would be equal to 1.2% of compensation paid to employees engaged in research and development. This credit would be non-refundable.

Eliminating Deductions, Credits, Other

6. **Eliminate Excess Compensation Reduction** **Fiscal Impact: + \$220 million**
Filing method reduces the tax for labor-intensive businesses. It reduces the adjusted tax base by the % that labor compensation exceeds 63% of the total tax base. Reduction affects approximately 45,000 taxpayers—approximately 55% are in the retail trade and services sector.
7. **Eliminate Gross Receipts Reduction** **Fiscal Impact: + \$160 million**
Filing method reduces the adjusted tax base by the amount the tax base exceeds 50% of the adjusted gross receipts. Adjusted gross receipts equal apportioned gross receipts plus any

capital acquisition deduction (CAD) recapture. Reduction affects approximately 17,000 taxpayers—primarily in the services and finance, insurance, and real estate sectors.

8. **Eliminate Unincorporated/S Corp. Business Credit** **Fiscal Impact: + \$80 million**
Credit to provide more equal treatment of business income (salaries, dividends, retained earnings) between SBT & income tax. If business income is less than \$20,000, then credit is equal to 20% of the SBT liability. If business income is between \$20,000 and \$40,000, then the credit is equal to 15% of the SBT liability. If business income is greater than \$40,000, then the credit is equal to 10% of the SBT liability. Credit affects approximately 51,000 taxpayers—primarily in retail trade and services sectors.
9. **Eliminate Utility Property Tax Credit** **Fiscal Impact: + \$4 million**
Credit equal to 5% of the state utility property tax up to a maximum of the total SBT liability for telegraph and telephone companies. Credit affects approximately 45 communications and utility companies.
10. **Eliminate Insurance Company Tax Credits** **Fiscal Impact: ?**
Credit for payments into insurance funds. Insurance companies are required to make payments into funds to protect existing insurance policies in case of a company bankruptcy.

Other Changes to Tax Provisions

11. **Eliminate SBT Repeal**
Under current law, the SBT is scheduled to be repealed for tax years that begin after December 31, 2009. The executive proposal would eliminate this repeal.
12. **Apportionment Factor** **Fiscal Impact: -\$40 million**
Changes the apportionment factor from 90% sales, 5% payroll, and 5% property to 100% sales. Multi-state businesses apportion a fraction of their total business activity to Michigan. As an example, under current law, a business with 20% of its sales, 70% of its payroll, and 70% of its property in Michigan would apportion 25% $((.90*.20) + (.05*.70) + (.05*.70))$ of its total tax base to Michigan. Under the proposed changes, this business would apportion 20% $((1.00*.20))$ of its total tax base to Michigan. This proposal would not affect Michigan-only business; it would only apply to multi-state businesses. In general, it would reduce the liabilities of businesses that have a high level of out-of-state sales relative to their sales in-state, and increase the liabilities of out-of-state businesses that have a relatively high level of sales in Michigan.
13. **Increases the Weight of Profits in the Tax Base** **Fiscal Impact: ?**
Corporate profits would receive an addition weighting of 2.0. Profits or business income, which is defined a federal taxable income, is the starting point of calculating the SBT base. Added to business income are compensation, depreciation, and the net operating loss. Under the executive proposed plan, businesses in which the sum of business income and the net operating loss were positive would add on profits multiplied by 2.0 to their tax base. If the sum of business income and the net operating loss were negative, then there would be no additional add on. This proposed change would only apply to corporations that are not S-corporations.

- 14. PEO Compensation.....Fiscal Impact: + \$4 million**
Treats compensation of employees leased from a professional employer organization as compensation of the client business. Professional employer organizations or PEOs manage the employment and human resource functions of other businesses.
- 15. Small Business Credit Fiscal Impact: ?**
Expands eligibility to any business organization form and to out-of-state affiliation. Under current law, for businesses owned by another company, the small business credit is calculated based only on the associated business with a taxable presence in Michigan. As a result, small businesses owned or controlled completely by out-of-state businesses are more likely to qualify for the credit than small businesses controlled by a business with a Michigan presence. The executive proposal would make the requirements uniform for all small businesses.
- 16. Eliminates Special Property Tax Treatment for Commercial Rental Property
..... Fiscal Impact: + \$30 million**
Treats changes in value like all other value changes are treated for assessment purposes. Under current law, decreases in occupancy rates for commercial rental property are treated as losses, which reduces the taxable value. However, increases in occupancy rates are not treated as additions and are, therefore, subject to the annual taxable value cap. The executive proposal would eliminate declines in occupancy rates from being treated as losses.

Websites for additional SBT Information:

<http://www.house.mi.gov/hfa/alpha.html>

Background and History: Michigan's Single Business Tax

http://www.michigan.gov/treasury/1,1607,7-121-1750_2122---,00.html

Single Business Tax 1999-2000

Executive Budget Appendix on Tax Credits, Deductions, and Exemptions Fiscal Year 2005

MICHIGAN'S MAJOR TAXES: REVENUE ESTIMATES, TAX RATES AND YIELDS FOR FY 2004-05 & FY 2005-06

(dollars in millions)

House Fiscal Agency Estimates

Updated: January 14, 2005

Tax	FY 2004-05			FY 2005-06			Tax Rate	Revenue Impact Due To Change in Rate		
	Baseline Revenue	Enacted Tax	Net	Baseline Revenue	Enacted Tax	Net		Rate Change b)	Revenue Change	
	Estimate a)	Changes a)	Revenue a)	Estimate a)	Changes a)	Revenue a)			FY 05	FY 06
Individual Income Tax:										
Gross Collections	7,701.9	-163.8	7,538.1	8,037.9	-191.6	7,846.3	3.9%			
Refunds	<u>-1,663.3</u>	<u>2.6</u>	<u>-1,660.7</u>	<u>-1,747.9</u>	<u>12.9</u>	<u>-1,735.0</u>	(eff. 7-1-04)			
Net Individual Income Tax	6,038.6	-161.2	5,877.4	6,290.0	-178.7	6,111.3		0.1%	123.0	171.4
Sales Tax	6,701.0	6.8	6,707.8	6,990.0	20.0	7,010.0	6.0%	1% on: c) first 4% of 6% last 2% of 6%	853.1 809.3	1,188.3 1,128.5
Use Tax	1,373.7	-4.4	1,369.3	1,430.0	-4.5	1,425.5	6.0%	1.0%	171.2	237.6
Single Business Tax	1,877.2	-21.5	1,855.7	1,936.4	-31.2	1,905.2	1.9% (eff. 1-1-03)	0.1%	82.3	113.8
Tobacco Tax	867.1	322.1	1,189.2	854.5	323.4	1,177.9	(eff. 7-1-04)	d)	d)	
Cigarettes	846.0	310.6	1,156.6	833.4	311.9	1,145.3	\$2.00/pack			
Other Tobacco Products	21.1	11.5	32.6	21.1	11.5	32.6	32% whole-sale price			
Liquor Specific Tax	33.5	0.0	33.5	34.0	0.0	34.0	4.0%	1.0% 4.0%	6.2 24.4	8.5 33.0
Beer Tax	44.0	0.0	44.0	44.4	0.0	44.4	\$6.30/barrel	\$1/barrel \$4/barrel	5.2 20.7	7.0 27.9
Wine Tax	8.0	0.0	8.0	8.1	0.0	8.1	e)	\$0.01/liter	0.4	0.6
Real Estate Transfer Tax	310.0	0.0	310.0	312.0	0.0	312.0	0.75%	0.25%	77.4	103.9
State Education Property Tax	1,848.6	-2.6	1,846.0	1,945.0	-1.1	1,943.9	6 mills	1 mill f)	307.7	324.0
Real Property	1,634.0	-2.3	1,631.7	1,719.2	-1.0	1,718.2	6 mills	1 mill	271.9	286.4
Personal Property	214.6	-0.3	214.3	225.8	-0.1	225.7	6 mills	1 mill	35.7	37.6
Gasoline Tax	972.0	0.0	972.0	980.0	0.0	980.0	\$0.19/gal.	\$0.01/gal.	38.4	51.6
State Casino Gaming Tax	98.0	49.0	147.0	100.0	49.0	149.0	12.10%	1.0%	9.1	12.3

a) Consensus Revenue Estimates, January 13, 2005.

b) Assumes effective date of January 1, 2005. An effective date later in FY 2005 would change the estimated impact in FY 2005 for each of the above taxes, plus the FY 2006 estimate would also change for the income tax and the single business tax.

c) The first 4 percentage points of the 6% sales tax rate are assessed on the entire sales tax base (including residential utilities), whereas the last 2 percentage points of the 6% sales tax rate are not assessed on residential utilities.

d) PA 164 of 2004: Effective July 1, 2004 the cigarette tax rate was increased from \$1.25/pack to \$2.00/pack and the other tobacco products tax was increased from 22% of the wholesale price to 32% of the wholesale price.

e) Wine containing 16% or less of alcohol 13.5 cents per liter, wine containing more than 16% of alcohol 20 cents per liter.

f) The SET revenue impact is calculated for a full year effect for both FY 2004 & FY 2005.

Business Privilege Taxes**Accommodations (Hotel/Motel)****ENACTED:** PA 263 of 1974, PA 106 of 1985**BASE:** Amount charged transient guests for lodging in any hotel/motel; in counties with population over 600,000, amount charged transient guests for lodging in a hotel/motel with over 80 rooms**RATE:** Variable; up to 6% of amount transient guests pay for lodging**DISPOSITION:** General Fund Restricted; Convention Facilities Development Fund**\$47,749,000****Airport Parking Excise****ENACTED:** PA 248 of 1987**BASE:** Amount charged for parking**RATE:** 27% of amount charged for parking**DISPOSITION:** Airport Parking Fund**\$15,100,000****Casino Wagering Tax****ENACTED:** Voter-initiated law of 1996**BASE:** Adjusted gross receipts received by gaming licensee**RATE:** 18%**DISPOSITION:** 55% to City of Detroit; 45% to School Aid Fund**\$94,500,000**
state portion

NOTE: In addition to the casino wagering tax, each casino annually pays \$8.33 million (indexed to inflation) to the State Services Fee Fund. The City of Detroit also levies a municipal services fee, which is the greater of 1.25% of adjusted gross receipts or \$4.0 million per casino.

Corporate Organization**ENACTED:** PA 284 of 1972**BASE:** Domestic: authorized capital stock; Foreign: capital stock attributable to Michigan**RATE:** Domestic: \$50 for first 60,000 shares, plus \$30 for each additional 20,000 shares; Foreign: \$50 for shares attributable to Michigan, plus \$30 for each additional 20,000 shares**DISPOSITION:** General Fund; Restricted**\$14,000,000****Foreign Insurance Company Retaliatory****ENACTED:** PA 218 of 1956**BASE:** Gross premiums of out-of-state insurance companies**RATE:** Unauthorized insurance at 2%; foreign insurance at Single Business Tax equivalent or amount equal to foreign imposed costs, whichever is higher**DISPOSITION:** General Fund/General Purpose**\$247,000,000**

Oil and Gas Severance

ENACTED: PA 48 of 1929

BASE: Gross cash market value of oil and gas severed

RATE: Oil at 6.6%; gas at 5%; stripper wells and/or marginal properties at 4%

DISPOSITION: General Fund/General Purpose

\$43,000,000

Simulcast Wagering

ENACTED: PA 279 of 1995

BASE: Amounts wagered on interstate and inter-track simulcast races

RATE: 3.5%

DISPOSITION: Agricultural Equine Industry Development Fund

\$11,300,000

Single Business

ENACTED: PA 228 of 1975

BASE: Federal adjusted gross income plus compensation, interest paid, and depreciation; with deductions for new capital investment and labor intensity

RATE: 1.9%

DISPOSITION: General Fund/General Purpose

\$1,878,700,000

Unemployment Compensation

ENACTED: PA 1 of 1936 (Extra Session)

BASE: Wages paid per covered employee up to limit of \$9,000; or wages equal to federal unemployment tax base – whichever is higher

RATE: Variable

DISPOSITION: Deposited to MESA for transfer to U.S. Treasury

\$1,000,000,000

Consumption Taxes**Beer**

ENACTED: PA 58 of 1998

BASE: Beer manufactured or sold in Michigan

RATE: \$6.30 per barrel; \$2 per barrel credit for small brewers

DISPOSITION: General Fund/General Purpose

\$44,200,000

Liquor

ENACTED: PA 58 of 1998

BASE: Retail selling of spirits

RATE: On-premise consumption: 12%; Off-premise: 13.85%

DISPOSITION: 4% Specific: all to General Fund/General Purpose; 4% Excise: all to School Aid Fund; 4% Specific: all to Convention Facility Development Fund; 1.85% Specific: all to Liquor Purchase Revolving Fund

\$108,000,000

Sales**ENACTED:** PA 167 of 1933**BASE:** Gross proceeds from retail sale of tangible personal property for use or consumption**RATE:** 6% (4% for electricity, natural gas, and home heating fuel)**DISPOSITION:** 24.2% to local revenue sharing (subject to appropriation), 73.3% to School Aid Fund, 1.0% CTF, remainder to General Fund/General Purpose**\$6,620,700,000****Tobacco Products****ENACTED:** PA 327 of 1993**BASE:** Tobacco products sold in Michigan**RATE:** Cigarettes at \$1.25 per pack; other at 20% of wholesale price**DISPOSITION:** From cigarettes: School Aid Fund at 54.2%; General Fund/General Purpose at 33.0%; Healthy Michigan Fund at 6%; Health & Safety Fund at 3.2%; Medicaid Trust Fund at 2.9%; Wayne County at 0.7%. From other: School Aid Fund at 75.6%; Healthy Michigan Fund at 6%; General Fund/General Purpose at 18.4%**\$876,800,000****Uniform City Utility Users****ENACTED:** PA 100 of 1990**BASE:** Privilege of consuming public telephone, electric, steam, or gas service in Detroit**RATE:** Between $\frac{1}{4}$ of 1% and 5%**DISPOSITION:** To hire police officers**\$55,000,000****Use****ENACTED:** PA 94 of 1937**BASE:** Purchase price of tangible personal property and certain services**RATE:** 6% (4% for electricity, natural gas, and home heating fuel)**DISPOSITION:** General Fund/General Purpose at 66.7%; School Aid Fund at 33.3%**\$1,257,500,000****Wine****ENACTED:** PA 58 of 1998**BASE:** Wine sold in Michigan**RATE:** \$0.135 per liter if 16% alcohol or less, \$0.20 per liter if over 16% alcohol; mixed spirit drinks \$0.48 per liter**DISPOSITION:** General Fund/General Purpose**\$7,300,000**

Income Taxes**Personal Income**

ENACTED: PA 281 of 1967

BASE: Federal adjusted gross income (AGI) of individuals, estates, and trusts, with adjustments

RATE: 4.0%; 3.9% in July 1, 2004

DISPOSITION: General Fund/General Purpose (GF/GP); 23% of gross revenues to schools adjusted for rate reductions

\$7,456,600,000
gross
\$5,819,900,000
net of refunds

Uniform City Income

ENACTED: PA 284 of 1964

BASE: Income of city residents and income earned in city

RATE: Maximum 1% of income for residents and corporations;
maximum 0.5% income for non-residents (2.4% resident, 1.2% non-
resident in Detroit; 1.4% on corporations; Highland Park, Grand
Rapids, and Saginaw may levy 2.0% resident, 1.0% non-resident)

DISPOSITION: General Fund of city

\$520,000,000

Property Taxes**Commercial Forest**

ENACTED: PA 57 of 1995

BASE: Lands placed in commercial forest reserve and cash value of timber thereon

RATE: Specific: \$1.10 per acre (\$1.20 per acre to local units);
withdrawal: \$1.00 per acre fee plus per acre penalty based on ad
valorem taxes (varies)

DISPOSITION: To local units in same proportion as general property tax, except school portion to School Aid Fund

\$2,800,000

County Real Estate Transfer

ENACTED: PA 134 of 1966

BASE: Fair market value of property transferred

RATE: \$0.55 per \$500 (0.11%); Wayne County may impose a higher
rate with voter approval

DISPOSITION: General Fund of county in which tax is collected

\$40,300,000

Estate (Inheritance Tax until 1993)

ENACTED: PA 188 of 1899, PA 54 of 1993

BASE: Fair market value of gross estate, pursuant to Federal Tax Code

RATE: Maximum allowable federal credit for state inheritance taxes
paid

DISPOSITION: General Fund/General Purpose

\$70,000,000

General Property

ENACTED: PA 206 of 1893

BASE: Real and personal property not otherwise exempted

RATE: Varies by local unit; requires voter approval

DISPOSITION: As locally determined

\$9,700,000,000

Industrial Facilities

ENACTED: PA 198 of 1974

BASE: Restored/replacement facility: taxable value, excluding land and inventory in year prior to exemption; new facility: current taxable value, excluding land and inventory

RATE: Restored facility: same as local property tax; new or replacement facility: 50% of all taxes other than the state education tax plus 100% of the state education tax

DISPOSITION: To local units in same proportion as general property tax, except school portion to School Aid Fund

\$166,000,000

Low Grade Iron Ore Specific

ENACTED: PA 77 of 1951

BASE: Rated annual capacity of production and treatment plant, and gross ton value of ore

RATE: 1.1% at full production

DISPOSITION: To local units in same proportion as general property tax, except school portion to School Aid Fund

\$5,900,000

Mobile Home Trailer Coach

ENACTED: PA 243 of 1959

BASE: Occupied trailer coaches in licensed trailer coach parks

RATE: \$3 per month per coach

DISPOSITION: SAF: \$2 per coach; counties and municipalities: \$0.50 per coach

\$5,900,000

Neighborhood Enterprise Zone Facilities

ENACTED: PA 147 of 1992

BASE: Rehabilitated facility: SEV in prior year of exemption, excluding land; new facility: SEV, excluding land

RATE: Homesteads: 50% of average rate of other homestead or qualified agricultural property; non-homesteads: 50% of average rate of other commercial, industrial, and utility property

DISPOSITION: To local units in same proportion as general property tax, except school portion to School Aid Fund

Included in
industrial facilities

Private Forest**ENACTED:** PA 57 of 1995**BASE:** Lands placed in private forest reserve and cash value of timber thereon (40 acre maximum)**RATE:** Specific: \$1.00 per acre; stumpage: 5% of value of timber cut; withdrawal: 5% of value of timber on the stump**DISPOSITION:** To local units in same proportion as general property tax, except school portion to School Aid Fund**\$200,000****State Education****ENACTED:** PA 331 of 1993**BASE:** Taxable value of all real and personal property; increase capped at the lesser of 5% or inflation**RATE:** 6 mills**DISPOSITION:** School Aid Fund**\$1,745,200,000****State Real Estate Transfer****ENACTED:** PA 330 of 1993**BASE:** Fair market value of property transferred**RATE:** \$3.75 per \$500 (0.75%) or fraction thereof of total value**DISPOSITION:** School Aid Fund**\$274,700,000****Technology Park Facilities****ENACTED:** PA 385 of 1984**BASE:** SEV of facility, excluding land**RATE:** New facility: 50% of 1993 school operating taxes, plus 50% of other property taxes except state education tax**DISPOSITION:** To local units in same proportion as general property tax, except school portion to School Aid Fund**Included in
industrial facilities****Utility Property****ENACTED:** PA 282 of 1905**BASE:** Taxable value of all property of telephone, telegraph, railroad, car loaning, sleeping car, and express car companies; certain exemptions for railroads**RATE:** Average statewide general property tax paid by other business property in preceding calendar year**DISPOSITION:** General Fund/General Purpose**\$120,600,000**

Transportation Taxes**Aircraft Weight**

ENACTED: PA 327 of 1945

BASE: The greater of maximum gross weight or maximum takeoff weight

RATE: \$0.01 per pound

DISPOSITION: Aeronautics Fund

\$300,000

Aviation Gasoline

ENACTED: PA 327 of 1945

BASE: Fuel sold or used for propelling aircraft

RATE: \$0.03 per gallon; \$0.015 per gallon refund to interstate airline operators

DISPOSITION: Aeronautics Fund

\$7,600,000

Diesel Fuel

ENACTED: PA 54 of 1951

BASE: Diesel fuel sold or used in vehicles operated on public highways; certain exemptions apply

RATE: \$0.15 per gallon

DISPOSITION: Michigan Transportation Fund

\$131,000,000

Gasoline

ENACTED: PA 150 of 1927

BASE: Gasoline sold or used in operating vehicles on public highways

RATE: \$0.19 per gallon

DISPOSITION: Michigan Transportation Fund

\$950,000,000

Liquefied Petroleum Gas

ENACTED: PA 147 of 1953

BASE: Liquefied petroleum gas sold or used in operating vehicles on public highways

RATE: \$0.15 per gallon

DISPOSITION: Michigan Transportation Fund

\$800,000

Marine Vessel Fuel

ENACTED: PA 320 of 1947

BASE: Gas and diesel fuel sold for propelling watercraft, off-road vehicles, and snowmobiles

RATE: \$0.19 per gallon with refund for certain vessels

DISPOSITION: Recreation Improvement Fund

\$400,000

Motor Carrier Fuel**ENACTED:** PA 119 of 1980**BASE:** Motor fuel consumed in commercial motor vehicle while operating on public highways**RATE:** \$0.15 per gallon for fuel consumed in Michigan**DISPOSITION:** Michigan Transportation Fund**\$29,600,000****Motor Vehicle Registration****ENACTED:** PA 300 of 1949**BASE:** Weight of vehicle, or type or price of vehicle; maximum loaded weight for large trucks**RATE:** Varies**DISPOSITION:** Michigan Transportation Fund and Scrap Tire Regulation Fund**\$867,500,000****Watercraft Registration****ENACTED:** PA 58 of 1995**BASE:** Length of boat (certain exemptions apply)**RATE:** \$14 to \$448, depending on length of boat; three-year registration period**DISPOSITION:** State Waterways Fund: 17.5%; Harbor Development Fund: 33.5%; Marine Safety Fund: 49%**\$10,000,000**

Dedication of State Revenue

<u>Tax</u>	<u>Dedication Amount</u>	<u>To/For</u>	<u>Constitutional or Statutory</u>
<u>Business Privilege Taxes</u>			
Airport parking excise	100%	Airport Parking Fund	Statutory
Casino wagering tax, state portion; 45% of 18% (or 8.1%)	100%	School Aid Fund	Statutory
Simulcast wagering	100%	Agriculture Equine Industry Development Fund	Statutory
<u>Consumption Taxes</u>			
Cigarette	3.2% 54.2% 2.9% 0.7%	Health and Safety Fund School Aid Fund Medicaid Trust Fund Wayne County	Statutory
Liquor excise at the 4% rate	100%	School Aid Fund	Statutory
Liquor specific at the 1.85% rate	100%	Liquor Purchase Revolving Fund	Statutory
Liquor specific at the 4% rate	100%	Convention Facility Development Fund	Statutory
General sales imposed directly or indirectly on: fuels sold to propel motor vehicles on highways, sale of motor vehicles, and sale of the parts and accessories of motor vehicles	Not more than 25%	Transportation purposes	Constitutional
Sales at the 2% rate	100%	School Aid Fund	Constitutional
Sales at the 4% rate	15%	Revenue sharing to cities, villages, and townships on a population basis	Constitutional
Amount equal to sales at the 4% rate	21.3%	Revenue sharing to counties, cities, villages, and townships	Statutory
Sales at the 4% rate	60%	School Aid Fund	Constitutional
Tobacco products	6%	Healthy Michigan Fund	Constitutional
Tobacco products other than cigarettes	75.6%	School Aid Fund	Statutory
Use at the 2% rate	100%	School Aid Fund	Constitutional
<u>Income Taxes</u>			
Gross income tax collections	23% with hold harmless adjustments for rate reductions	School Aid Fund	Statutory

Dedication of State Revenue

Lottery Proceeds

Lottery proceeds (net)	100%	School Aid Fund	Statutory
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Property Taxes

Commercial forest	School district share	School Aid Fund	Statutory
Industrial facilities	School district share	School Aid Fund	Statutory
Low grade iron ore specific	School district share	School Aid Fund	Statutory
Mobile home trailer coach	67%	School Aid Fund	Statutory
Neighborhood enterprise zone facilities	School district share	School Aid Fund	Statutory
Private forest	School district share	School Aid Fund	Statutory
State education	100%	School Aid Fund	Statutory
State real estate transfer	100%	School Aid Fund	Statutory
Technology park facilities	School district share	School Aid Fund	Statutory

Transportation Taxes

Aircraft weight	100%	Aeronautics Fund	Statutory
Aviation gasoline	100%	Aeronautics Fund	Statutory
Diesel fuel	100%	Michigan Transportation Fund	Statutory
Gasoline	100%	Michigan Transportation Fund	Statutory
Liquified petroleum gas	100%	Michigan Transportation Fund	Statutory
Marine vessel fuel	100%	Recreation Improvement Fund	Statutory
Motor fuel (specific)	100%	Transportation purposes	Constitutional
Motor carrier fuel	100%	Michigan Transportation Fund	Statutory
Motor vehicle registration	100%	Michigan Transportation Fund with certain fees to Scrap Tire Regulation Fund	Statutory
Watercraft registration	17.5%	State Waterways Fund	Statutory
Watercraft registration	33.5%	Harbor Development Fund	Statutory
Watercraft registration	49%	Marine Safety Fund	Statutory

NOTE: Revenues not constitutionally or statutorily earmarked (dedicated) are General Fund/General Purpose.